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**Hearing on China and South Asia**

I appreciate the opportunity to offer for the Commission 's consideration observations regarding China's involvement in South Asia and suggestions on how to advance U.S. interests in the current environment.

**President Xi and the Evolution of China's Relations with South Asia**

China's attitudes towards the countries of South Asia have shifted over time, but Beijing's policies under Xi Jinping towards that region reflect a large degree of continuity with those of his immediate predecessors, Presidents Hu Jintao and Jiang Zemin.

In the first decades after the establishment of the People's Republic of China (PRC), territorial disputes, particularly with India, shaped Beijing's relations with the countries of South Asia. India had initially hoped for a close relationship with Mao Zedong's China. New Delhi early on established diplomatic relations with the PRC and pushed for its entry into the UN. By 1954, India had also acknowledged the incorporation of Tibet into the PRC. In the following years, however, India looked on with increasing dismay at the PRC's political, cultural and religious oppression inside Tibet. In 1959, following a failed rebellion in Tibet, India granted the Dalai Lama asylum, angering China.

Tensions between India and China also increased as both countries aggressively sought to establish a military presence in disputed mountainous territory along their shared border. These tensions flared into the Sino-Indian War in the Himalayas in 1962, in which India suffered a resounding defeat. That outcome not only colored Sino-Indian relations for decades but also dramatically changed China's relations with Pakistan. Pakistan abandoned its border claims that conflicted with China's and established an extremely close relationship with Beijing. Throughout these decades, China maintained cordial formal relations with the other countries of South Asia. These relations featured mutual proclamations of anti-imperialist solidarity but contained little substance. Until the 1990s China's relations with South Asia remained characterized by close ties with Pakistan, mutual suspicion with India, and proper but not strong ties with the remaining countries of the region.

During the 1990s, following Tiananmen, Deng Xiaoping recognized that the Chinese Communist Party could only retain power through providing prosperity to the Chinese people. This recognition resulted in an export-led model of growth. During the tenures of Jiang Zemin (1992-2002) and Hu Jintao (2002-2012), this emphasis on exports fueled a search for foreign markets. It also led to a concern about the

security of the lines of communication necessary to transport resources and inputs into China and exports out of China.

These two considerations reshaped China's attitudes towards South Asia. South Asia had a market of close to two billion potential consumers and a huge need for both consumer items and infrastructure. That made it an attractive target for Chinese exporters. At the same time, around 25 percent of China's overall exports and as much as 80 percent of its energy imports crossed the Indian Ocean. That focused Beijing's leaders on the need to ensure the security of that key transportation link. Throughout the 90's and ought's, Chinese exports to the South Asia region, including industrial inputs and infrastructure construction, increased, and China began to build ports in and overland links to South Asia. Moreover, by 2009, China had begun its first long-term, long-distance naval deployment as part of the multinational anti-piracy effort in the Gulf of Aden. Those deployments have led to frequent transits of the Indian Ocean by the Chinese Navy and port stops throughout the region, including Sri Lanka, Pakistan and Myanmar.

In 2012, Xi Jinping assumed control in China. Since then, with respect to South Asia, he has continued the policy direction begun by his predecessors and greatly expanded China's commitments to the region. His One-Belt, One Road initiative echoes earlier attempts to tie South Asia's economies to China's by building transportation links; the \$40 billion Silk Road Fund promises additional money for building China's investment and trade ties with South Asia. Xi also looks set to continue the previous policy of expanding the Chinese navy's presence in the Indian Ocean. The anti-piracy patrols continue in the Gulf of Aden, and in 2015, China signed an agreement with Djibouti to establish a naval facility there. Overall, under President Xi, China looks set to continue expanding its influence in South Asia and the Indian Ocean while trying to avoid alarming or provoking India.

### **Perceptions of and Policies toward China among the Smaller Countries of South Asia**

India and its predecessor states have so dominated the region for so long that both the elites and general populace of Bangladesh, Bhutan, the Maldives, Nepal, and Sri Lanka look at relations with China through the prism of their countries' relationships with India. All these other countries view ties with Beijing to a large degree as leverage to use in their relationship with New Delhi.

When the government of one of these other countries runs into a difficult patch in its relations with India, that government tries to garner support and assistance from China. The most recent example was when Nepal reached out to China last September after New Delhi unofficially closed the land border between India and Nepal. (The Indian government believed that Nepal's new constitution provided insufficient rights to Nepali citizens of Indian extraction.) The border closure quickly resulted in shortages of oil, food, and medicine in Nepal. Beijing's response to the Nepali government's pleas was instructive: China provided a few small

shipments of oil, while carefully avoided criticizing India's actions and clearly indicating it had no intention of supplanting India as the primary supporter of Nepal's economy.

China's increasing wealth and growing interest in South Asia have somewhat altered perceptions in the smaller countries of South Asia. Governments and business elites increasingly view China as a no-questions-asked business partner and source of large numbers of tourists and funding for infrastructure investment. The general populace in these countries welcomes the Chinese-made consumer items flooding the region and hopes that China's economic activity in their countries will lead to increased prosperity.

Neither the elites nor the general populace of these countries tends to view China as a security threat. These countries' lack of border issues with China and strong ties with India lead to a perception of China as being a relatively distant and benign power. Some security professionals in the region, particularly those with close ties to India, might worry about China's increasing aggressiveness in the South China Sea and long-term plans in the Indian Ocean; such concerns, though, seem remote for most people in the smaller countries of South Asia.

One concern that has cropped up in Bangladesh and Sri Lanka is the quality and cost of infrastructure construction done by Chinese companies. In both countries, infrastructure projects (roads, ports, bridges) which had been advertised as Chinese assistance have turned out to be single-source construction awards financed by loans at commercial rates. In several cases, the construction has proven to have serious flaws. For example, in Sri Lanka, China constructed a series of vanity projects (e.g., a convention center, airport, and harbor) in the home district of the former President, at commercial rates considerably higher than normal concessional financing. The new government that came to power in Sri Lanka in 2015 has alleged corruption with respect to some of the construction and negotiated a lowering of interest rates for some of the projects.

### **Opportunities and Challenges in Integrating Strategy for China and South Asia**

Most of the U.S. Government does not do well at integrating strategy on China and South Asia. Other than the U.S. Pacific Command, few U.S. Government departments and agencies have line offices that look at the Indo-Pacific as an integrated whole, and few have individuals with much experience in both regions. For the first five years of the George W. Bush administration, the National Security Council had an Asia Directorate covering all of East, South, and Southeast Asia and Oceania, but there currently exists no comparable body overseeing inter-agency policy on, or trying to devise an integrated strategy for, China and South Asia.

Individual officials throughout the government do their best to attempt to integrate strategy on China and South Asia. My experience suggests that officials working on South Asia are more likely to factor in China during consideration of policy

questions than officials working on China are likely to factor in South Asia. This likely reflects the greater weight currently given to China in the formulation of overall U.S. foreign policy. Officials working on South Asia also want to make sure the region receives sufficient attention as the United States rebalances to Asia. Currently, in any given U.S. government agency, the personal and professional relationships between the two officials charged respectively with policy towards China and South Asia determine to a large extent how interested and active that agency will be in trying to integrate China and South Asia policy into a coherent strategy.

Going forward, an important way to ensure integration of policy towards China and South Asia would be to move from personalized relationships to institutionalized ones. Within a department or agency, the officials in charge of China and South Asia (e.g., the Assistant Secretaries for East Asia and the Pacific and for South and Central Asia in the State Department) could be required (by the Secretary or Under-Secretary for Political Affairs) to prepare an annual plan on integrating China and South Asia policy and then be required to meet together periodically (e.g., monthly) to review progress on implementing the plan. Regular consultations on the Indo-Pacific with allies and partners could also spur U.S. integration of policy on China and South Asia. Japan and Australia, in particular, appear well ahead of the U.S. in viewing the Indo-Pacific as one region.

An even more ambitious institutional response could be to have more U.S. Government agencies follow the example of the Pacific Command, where one officer in charge of all of East Asia, South Asia, and the Pacific. Admittedly, such an approach could run into considerable bureaucratic resistance.

Ultimately, however, the best way to ensure a strategy that seamlessly integrates China and South Asia is to have the U.S. President and department and agency heads continually insist on such a strategy. This would require maintained, rather than the currently episodic, interest at the very top of the U.S. government in viewing the Indo-Pacific as an integrated whole and setting policy accordingly.

### **China's versus India's Influence among South Asian States**

China has a problem in attempting to compete with India in the smaller South Asian nations: it has no way of altering geography, history, culture, and vital national interest. India is simply much closer to most of the countries in question; even those that share a border with China (Nepal and Bhutan) are separated from the Chinese heartland by forbidding mountains and long distances. The histories of the countries of South Asia are much more intertwined with India's than with China's. The cultures, languages, and religions of the other South Asian countries connect with those of India more than with China's. It is hard to imagine that Chinese soft power would ever supplant the appeal of Bollywood in the smaller nations of South Asia. Just as important, Indian policy makers focus on the countries of South Asia to

a degree that China – even as it increases its attention on South Asia - is unlikely to match. Those countries are simply much more important to India than to China.

India has reacted strongly whenever it suspected that Chinese activities in the smaller countries of South Asia threatened Indian influence. On several occasions when India has had strains in its relations with neighboring countries, China has attempted to warm its relations with those countries, for example, by sending submarines for a visit to Sri Lanka (2014) and providing Nepal's Maoist-led government with diplomatic and financial support (2008-2009). On each occasion, India pressured the government concerned, stepped up assistance to that country and succeeded in restoring India's stature as the preeminent foreign power in the country.

These outcomes also reflect a Chinese desire not to unduly provoke India. In recent decades, China had not seen India as a serious competitor. China viewed itself as a much wealthier, more powerful country than India, which it viewed as purely regional power. Over the past ten years or so, however, India's warming ties with the United States have created worries in Beijing. China fears that ever-closer Indo-U.S. ties, particularly in the military sphere, could eventually result in India's becoming a lynchpin of a U.S. strategy to contain China. From Beijing's perspective, Chinese gains in the smaller countries of South Asia would be counter-productive if they came at the cost of an India more closely aligned with the United States.

### **The Strategic Value of South Asian Markets to China**

Economic ties represent one sphere where China feels it can safely compete with India among the smaller countries of South Asia. The record to date in this area is mixed, but it looks like India is largely holding its own. Bangladesh is the only one of those countries whose trade with China is greater than that with India. (This is in large part due to purchase of inputs from China by the Bangladesh ready-made garment sector.) Similarly, India's direct investments exceed those of China in the smaller countries of South Asia except Bangladesh, where the figures are about equal. India's grants and concessional assistance to each of the five countries also appear greater than China's, although Chinese figures remain opaque. And finally, remittances from India are an important part of the economy in each of the smaller South Asian countries (total of \$7.5 billion), and are 70 times greater than those countries' remittances from China. To put these economic ties in perspective, total Chinese trade with the smaller countries, roughly \$12.8 billion represents a small fraction of China's trade with India itself (\$60 billion), which in turn represents a tiny portion of China's total trade globally, \$4.3 trillion. (2014 figures)

With the economies of India, Bangladesh, and Sri Lanka all growing at a healthy clip, China clearly wants to expand its exports to the region. Beijing is, for example, reportedly negotiating a free trade agreement with Sri Lanka. The South Asian portion of the "One Belt, One Road" initiative represents an attempt by Beijing to tie the economies of the region more closely to China's. By building infrastructure

linked to that of China, the initiative should lead to increased flow of Chinese goods into South Asia. At the same time, large-scale infrastructure projects in the region could provide markets for Chinese industries facing problems of over-capacity at home (e.g., construction, steel, cement).

In India there has been considerable interest in the “One Belt, One Road” initiative. Proponents argue that the initiative could prove a boon to the Indian economy and to greater integration in the region. The Indian government, however, views the initiative as an attempt to redirect South Asia’s trade towards China and a potential threat to India’s strategic interests. Speaking at a conference on regional and global connectivity on March 3, Indian Foreign Secretary Subrahmanyam Jaishankar stressed that India welcomed greater connectivity in the region, but would only support initiatives that pursued that goal through multilateral consultations. Without directly naming the One Belt, One Road initiative, Jaishankar expressed opposition to unilateral connectivity initiatives: “We can not be impervious to the reality that others may see connectivity as an exercise in hard-wiring that influences choices...In the absence of agreed security architecture in Asia, it could give rise to unnecessary competitiveness. Connectivity should diffuse national rivalries, not add to regional tensions.”

### **China’s and India’s Roles in Multilateral Agreements and Institutions**

China and India have different goals for multilateral institutions. Beijing wants a rectification of multilateral organizations that will reflect China’s strength and advance China’s interests. While playing an increasingly active role in a variety of multilateral organizations, particularly the United Nations, China also seeks to establish new multilateral institutions. China sees these new organizations as rivaling, if not replacing, global institutions set up after World War II and still dominated by the Western powers and Japan.

The January 2016 launch of the Asian Infrastructure Investment Bank represents China’s most notable achievement to date in setting up new multilateral organizations. With 30 founding members and projected capital of \$100 billion, the AIIB implements a 2013 commitment by Xi Jinping to establish a regional investment bank to help fund Asia’s huge infrastructure needs. Despite opposition to the bank by the United States and Japan, a number of close U.S. allies became founding members, including South Korea, Germany, the UK, and Australia. These countries maintain that their joining the AIIB led Beijing to agree to a charter that will ensure the bank is run according to international best practices. Indeed, the fact that Beijing will control only 26% of the voting shares in the bank suggests that it will be difficult for China to manipulate the bank’s lending.

Similarly, the BRICS grouping of countries (Brazil, Russia, India, China, and South Africa) have set up the BRICS New Development Bank, headquartered in Shanghai, with committed capital of \$50 billion. The NDB will concentrate on mobilizing resources for infrastructure and sustainable development projects in the BRICS and

other developing countries. This bank appears to be on somewhat shakier footing than the AIIB given difficulties several founding members might have in meeting their funding commitments.

On the security side, the most notable multilateral accomplishment of China to date has been the 1996 establishment of the Shanghai Cooperation Organization (SCO), an organization that brings together Russia, China, and the countries of Central Asia to discuss terrorism concerns. (Pakistan and India are in the process of joining the SCO.) In other regions, including South Asia, China shows a marked preference for dealing with security issues on a bilateral basis.

India seeks not so much to create new multilateral institutions as to strengthen its role in existing ones and to join new ones that might benefit India. For years, India's top priority with respect to multilateral institutions has been to obtain a permanent seat on the UN Security Council. Such a seat, however, would have to be part of a broader package for reforming the UN Charter that would require the acquiescence of all five permanent members of the Council and of two-thirds of all UN member countries. The prospects for such a broad reform package remain dim.

India would like to see reforms that would increase India's influence within international financial institutions. For years, it pushed hard for quota reform within the International Monetary Fund (IMF) and thus welcomed the U.S. legislation that allowed a long-delayed quota reform package to make India in January the eighth largest shareholder in the Fund.

India was a founding member of both the Asian Infrastructure Investment Bank and the BRICS New Development Bank. The Indian government welcomes those new banks as additional sources of development funding. India has also worked closely with China in multilateral organizations where their interests overlap - for example, in climate change negotiations. The Indian government was eager to join the AIIB and NDB, because both had clear charters and were potentially beneficial to India. In contrast, New Delhi has as noted above shown a distinct lack of enthusiasm for the One Belt One Road initiative, which it views as a unilateral initiative lacking transparency and primarily designed to promote China's interests.

The U.S. attitude toward China's role in multilateral organizations should be similar to India's. The U.S. should welcome China's participation, so long as those organizations are transparent, rules-based and conform to international best practice. A China that adheres to international norms and obligations should be a more predictable, less aggressive China. The United States should actively consider joining multilateral organizations founded by China that meet the above criteria; joining would allow the United States to work with China to ensure that new organizations conform to international best practices. The United States should indicate that it would welcome Chinese participation in groupings such as the Trans Pacific Partnership when China is ready to meet the standards and obligations of these organizations.

## **The U.S. Approach to South Asia as Afghanistan's Importance Dwindles**

As Afghanistan declines in strategic importance for the United States, U.S. policy makers will begin to consider shifting resources from Pakistan and Afghanistan to other priorities. Decades of mistrust and misunderstanding will lead some in the United States to push to seriously downgrade the U.S. relationship with Pakistan. I personally think such a downgrading would be disastrous for U.S. interests. Our walking away from Pakistan in the 1990s led to an acceleration of the Pakistan nuclear program, increased tensions between Pakistan and India, and an explosion of terrorism in South Asia. In the current global environment, a similar break would likely lead to considerable instability within Pakistan and in the region.

A lessening of U.S. strategic interest in Afghanistan and Pakistan would in previous decades likely have led to a broader shift of policy attention away from South Asia. I doubt that would be the case now. There appears to be a broad recognition among U.S. policy makers of the growing importance of South Asia, both in and of itself, but also in terms of broader U.S. strategic interest. India has the fastest growing major economy in the world and will soon be the world's most populous country. Bangladesh is the eighth most populous country in the world, has an economy that has grown over six percent a year for all but one of the last ten years, and has made great strides in everything from life expectancy to female literacy; it is the second largest exporter of ready-made garments in the world and a major player on climate change. Sri Lanka possesses the most strategic ports in the Indian Ocean, is shaking off civil war and authoritarian rule, and adopting bold economic reforms. Nepal is the key buffer state between China and India. These are all countries playing important roles in areas on which U.S. policy will continue to focus.

An increasingly close relationship with India will be absolutely key if the United States is to successfully manage its relations with China. A cooperative partnership between the United States and India in all spheres – economic, science and technology, and cultural every bit as much as security – will be the best guarantee of stability in the Indian Ocean. A prosperous and stable South Asia with positive ties to the United States could help dissuade China from aggressive policies in the Indian Ocean as it advances its interests.

As the United States continues to improve relations with India, we should keep in mind, but not be intimidated by, how India views the smaller countries of South Asia. India will always consider Bangladesh, Bhutan, the Maldives, Nepal, and Sri Lanka as falling within New Delhi's sphere of influence and will look with suspicion on attempts by any country to expand ties with those countries, particularly in the security sphere. However, India's interests in those countries will not exactly coincide with U.S. interests, nor will India's policy execution always be flawless. Thus, the United States should not shy away from working closely with the other countries of South Asia to advance U.S. interests but should be transparent with



India about our goals in doing so. Such an approach will ease Indian suspicions while also maintaining U.S. leverage in the region.

### **Policy Recommendations for Congress**

Congress will continue to play an important role in shaping and advancing U.S. strategy across the vital Indo-Pacific region. Efforts such as the India Caucus and Bangladesh Caucus represent a valuable investment of Congressional time. They help members and staff gain expertise and drive forward well-informed legislation designed to further U.S. interest. Congress also plays a key role in ensuring that U.S. policy reflects the fact that South Asia can no longer be treated as a relatively unimportant, far-away region. Congressional hearings on the progress of implementing the re-balance to Asia and other subjects represent an excellent opportunity to encourage the administration to treat South Asia as an integral part of a much broader Indo-Pacific region of absolutely vital importance to U.S. interests. An impending Congressional hearing is a fine way to force government officials to focus on a given issue.

With that background, I will recap a few very specific recommendations for Congress that I have raised above and add one important one that I have not mentioned previously.

- First and foremost, approve the Trans-Pacific Partnership. There is simply nothing else that the Congress could do that would alter trends in the entire Indo-Pacific region in such a positive fashion. China has been putting forth (and in many cases beginning to implement) plan after plan to increase wealth and trade in the region. U.S. failure to pass the TPP would look as though the United States was moving in the opposite direction, not interested in the prosperity of this vital region. The rebalance would be seen as only advancing U.S. security interests in Asia. Moreover, U.S. failure to pass TPP would create in South Asia and the rest of the Indo-Pacific the impression that the United States accepted a future in which China was Asian countries' preferred economic partner, while the United States would only play the role of security guarantor. In contrast, the adoption of TPP would boost the economies of the United States and its partners, encourage other countries in the region to join the agreement and abandon protectionist policies, and demonstrate conclusively that the United States will remain an Indo-Pacific economic partner and power.
- Avoid the temptation to punish Pakistan. As Afghanistan becomes less of a strategic priority for the United States, the temptation in Congress to punish Pakistan for various misdeeds will increase. The most attractive options will appear to be sanctions and cutting off of assistance and military ties. U.S. policy, however, should reflect the fact that such moves have not worked well in the past and that the United States can ill-afford not to have working relations with a nuclear-armed country of nearly 200 million Muslims facing

serious terrorism issues. The large numbers of Pakistanis in the recent flow of migrants to Europe remind us that a poor and unstable Pakistan would have not only regional but also global impact. In that context, the United States should think long and hard before cutting ties with the Pakistan Army, an institution that will continue to dominate Pakistan's security and foreign policy for the foreseeable future.

- Don't make it all about China. Doing so would only scare off the countries of South Asia. The United States should advance its interests throughout the Indo-Pacific, including South Asia, and should be ready if necessary to counter aggressive moves by China. None of the countries of South Asia want a Sino-U.S. confrontation in their backyard; all would welcome a U.S. role if China were to become increasingly aggressive. The United States should also, however, welcome positive contributions by China on global issues, including in South Asia, and should welcome Chinese participation in rules-based organizations. The United States should not portray the TPP as an anti-China trade bloc but rather as a state-of-the-art trade agreement to boost wealth and prosperity in the Indo-Pacific. The United States should make clear that we do not rule out Chinese participation in the TPP, if Beijing is willing to meet the high standards of the agreement. Similarly, the United States should be willing to join Chinese-founded organizations, such as the AIIB, if we can determine that those organizations are transparent and rules-based and not just tools to promote Chinese interests.